

**Letter Report: Centralizing the Processing of  
Business Tax Returns – The Internal Revenue  
Service Considered Pertinent Risk Factors,  
but Needs to Update and Test Business  
Recovery Plans**

**March 2001**

**Reference Number: 2001-30-060**

**This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.**



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

INSPECTOR GENERAL  
for TAX  
ADMINISTRATION

March 21, 2001

MEMORANDUM FOR COMMISSIONER, SMALL BUSINESS/SELF-EMPLOYED  
DIVISION

A handwritten signature in cursive script, reading "Pamela J. Gardiner".

FROM: Pamela J. Gardiner  
Deputy Inspector General for Audit

SUBJECT: Final Letter Report: Centralizing the Processing of Business Tax  
Returns – The Internal Revenue Service Considered Pertinent  
Risk Factors, but Needs to Update and Test Business Recovery  
Plans

This report presents the results of our review of the Internal Revenue Service's (IRS) process for deciding to migrate to two centers for processing business tax returns.

In summary, the IRS identified and gave adequate consideration to pertinent risk factors when deciding to centralize the processing of business tax returns in two submission processing centers. However, the Small Business/Self-Employed Division needs to ensure that contingency plans are both updated to reflect the new organization, and tested to ensure that business returns will continue to be processed if one of these two submission processing centers experiences a disaster or significant downtime.

The Deputy Director, Customer Accounts Services agreed to review, update and test contingency plans for the new organization and new workload. Management's comments have been incorporated into the report where appropriate, and the full text of their comments is included in Appendix III.

Copies of this report are also being sent to the IRS managers who are affected by the report recommendation. Please contact me at (202) 622-6510 if you have any questions, or your staff may call Gordon C. Milbourn III, Associate Inspector General for Audit (Small Business and Corporate Programs), at (202) 622-3837.

**Letter Report: Centralizing the Processing of Business Tax Returns –  
The Internal Revenue Service Considered Pertinent Risk Factors,  
but Needs to Update and Test Business Recovery Plans**

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## **Objective and Scope**

*The objective of this audit was to determine whether the IRS considered all relevant risk factors in making its decision to migrate to two centers for processing business tax returns.*

The objective of this audit was to determine whether the Internal Revenue Service (IRS) considered all relevant risk factors in making its decision to migrate to two centers for processing business tax returns. This is the first of two audits on the centralization of business returns processing.

To accomplish our objective, we identified factors<sup>1</sup> which we considered significant in making the decision. We interviewed members of the Service Center Transition Team, including the Modernization Team Executive and the Ogden and Cincinnati Team Leaders, and reviewed documentation provided to us by these individuals to ensure that the factors we considered to be significant were given proper consideration during the decision-making process. In a parallel review, other auditors from the Treasury Inspector General for Tax Administration will look at the decision to use eight centers for processing individual income tax returns.

We conducted this audit from August to December 2000. Audit work was conducted in the Ogden IRS Center in accordance with *Government Auditing Standards*.

Major contributors to this report are listed in Appendix I. Appendix II contains the Report Distribution List.

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<sup>1</sup> We identified 25 key factors by: reviewing the General Accounting Office's (GAO) *Standards for Internal Control in the Federal Government* (GAO/AIMD-00-21.3.1, November 1999); reviewing the IRS' plans; and utilizing the audit team's collective knowledge of the IRS organization.

**Letter Report: Centralizing the Processing of Business Tax Returns –  
The Internal Revenue Service Considered Pertinent Risk Factors,  
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## **Background**

As part of the IRS' modernization and workload transition efforts, the IRS Commissioner challenged the Service Center Transition Team to re-examine options for processing tax returns, with a focus on maximizing Business Master File (BMF) centralization. An internal task force provided two options: (1) a combination of eight Individual Master File (IMF) and two BMF processing centers, and (2) mixed scenarios of either five IMF and five IMF/BMF centers, or seven IMF and three IMF/BMF centers.

*The decision to have individual tax returns processed at eight centers and business tax returns processed at two centers will cause significant changes in all submission processing centers.*

The team's decision to have individual tax returns processed at eight centers and business tax returns processed at two centers (Ogden and Cincinnati) will cause significant changes in all submission processing centers. For instance, the number of states whose returns are processed at the two BMF centers will increase from 38 percent in 2000 to approximately 68 percent in 2001, and to 100 percent in 2002. The number of BMF returns processed by the Ogden Submission Processing Center alone will increase 92 percent, from approximately 5.3 million in 2000 to 10.2 million in 2001.

In making this decision, it was important that the IRS consider all pertinent risk factors that could hinder the timely and accurate processing of tax returns. Adequate planning and effective implementation of the workload transition to maximize BMF centralization are key to the IRS' modernization efforts.

## **Results**

*The IRS identified and gave adequate consideration to all the risk factors that we had determined to be significant.*

In its decision to process business tax returns in only two submission processing centers, the IRS identified and gave adequate consideration to all the risk factors that we had determined to be significant to that decision.

**Letter Report: Centralizing the Processing of Business Tax Returns –  
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*The IRS plans to implement the decision over a 2-year period to allow time to identify and deal with problems as they arise.*

The factors included such things as taxpayer education, availability and skills of personnel, training needs, equipment and space needs, and oversight.

Simply considering these factors does not necessarily guarantee that the IRS' implementation of its decision will be without problems. However, the IRS plans to implement the decision over a 2-year period to allow time to identify and deal with problems as they arise.

During the transition period, all ten submission processing centers will have the ability to process both individual and business tax returns. Consequently, a problem experienced in one center during this period may not be highly significant. However, once the transition is complete, only two centers will be fully equipped to process business returns. Therefore, the IRS should have a well-documented contingency plan to address the continuation of business return processing should one of these two centers experience significant downtime.

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**The Internal Revenue Service Needs to Develop a Contingency Plan in the Event of a Disaster Affecting One of Its Two Business Submission Processing Centers**

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*There are no contingency plans specifically addressing the new configuration for processing business tax returns.*

The IRS has not prepared contingency plans which specifically address its new configuration for processing business tax returns. Each of the IRS' Operating Divisions is responsible for developing its own Business Recovery Plan documenting procedures to be used for the resumption of business after a disaster. In the Ogden Submission Processing Center, comprehensive Business Recovery Plans for the Processing Division and Post Processing Division were prepared in October 2000, just months prior to the beginning of the migration to two BMF Submission Processing Centers. The plans tell personnel, in detail, what has to be done to resume business in the event of a disaster or unplanned work

**Letter Report: Centralizing the Processing of Business Tax Returns –  
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---

*Contingency plans are vital to ensure that an organization can continue to function in the event of a disaster.*

stoppage (e.g., shipping work to a backup center if necessary). However, the plans have not been updated to reflect the IRS' reorganization of submission processing activities and do not take into consideration that, beginning in 2002, only one other submission processing center will be equipped to process business tax returns.

Contingency plans are vital to ensure that an organization can continue to function in the event of a disaster. Above all, these plans should be practical, tested, and up-to-date.

IRS management acknowledged that the migration to two BMF Submission Processing Centers would result in reduced flexibility in case of a disaster in one of these centers, and that contingency plans should address this issue. However, they have not taken action to update contingency plans to reflect the reduction in BMF Submission Processing Centers. Until an up-to-date contingency plan is developed and tested, processing of business tax returns is unnecessarily exposed to risk.

**Recommendation:**

1. The Modernization Team Executive, Service Center Transition Team, should ensure that IRS Operating Divisions update and test contingency plans during the first year (2001) of the transition to two BMF and eight IMF Submission Processing Centers.

Management's Response: The Deputy Director, Customer Accounts Services, will review, update, and test the contingency plans to reflect the workload migration to the two BMF processing centers and to ensure returns are processed if one of the two centers experiences a disaster or significant downtime.

**Letter Report: Centralizing the Processing of Business Tax Returns –  
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## **Conclusion**

*The IRS considered pertinent risk factors in making its decision to migrate to two business tax return processing centers. However, contingency plans need to be updated and tested.*

The IRS identified and gave adequate consideration to pertinent risk factors when deciding to process business tax returns in two submission processing centers. However, the IRS needs to ensure that contingency plans are updated to reflect the new organization, and tested to ensure that business returns will continue to be processed if one of the two BMF Submission Processing Centers experiences a disaster or significant downtime. The corrective action planned by the IRS will adequately address the concern discussed in this report.

**Letter Report: Centralizing the Processing of Business Tax Returns –  
The Internal Revenue Service Considered Pertinent Risk Factors,  
but Needs to Update and Test Business Recovery Plans**

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**Appendix I**

**Major Contributors to This Report**

Gordon C. Milbourn III, Associate Inspector General for Audit (Small Business and Corporate Programs)

Richard J. Dagliolo, Director

Kyle R. Andersen, Audit Manager

Scott D. Critchlow, Senior Auditor

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**Letter Report: Centralizing the Processing of Business Tax Returns –  
The Internal Revenue Service Considered Pertinent Risk Factors,  
but Needs to Update and Test Business Recovery Plans**

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**Appendix II**

**Report Distribution List**

Commissioner N  
Deputy Commissioner N:DC  
Director, Customer Account Services S:CAS  
Modernization Team Executive C:MOD:SCTT  
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    Director, Customer Account Services S:CAS

**Letter Report: Centralizing the Processing of Business Tax Returns –  
The Internal Revenue Service Considered Pertinent Risk Factors,  
but Needs to Update and Test Business Recovery Plans**

**Appendix III**


**Management's Response to the Draft Report**



**DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
WASHINGTON, D.C. 20224**

MAR - 7 2001

**MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR  
TAX ADMINISTRATION**

**FROM:** Joseph G. Kehoe   
Commissioner, Small Business/Self-Employed Division

**SUBJECT:** Draft Letter Report: Centralizing the Processing of  
Business Tax Returns - The Internal Revenue  
Service Considered Pertinent Risk Factors, but  
Needs to Update and Test Business Recovery  
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We appreciate the opportunity to respond to your draft report and recommendation for Centralizing the Process of Business Tax Returns. The objective of your audit was to determine if IRS considered all relevant risk factors in making its decision to migrate to two centers for processing business tax returns.

We agree with your recommendation. Small Business/Self-Employed Division will take steps to ensure that contingency plans are updated to reflect the new organization and new workload.

**RECOMMENDATION**

The Modernization Team Executive, Service Center Transition Team, should ensure that IRS Operating Divisions update and test contingency plans during the first year (2001) of the transition to two BMF and eight IMF Submission Processing Centers.

**ASSESSMENT OF CAUSE**

Management acknowledged that the migration to two BMF Submission Processing Centers would result in reduced flexibility in case of a disaster in one of the two centers. However, action to update contingency plans to reflect the reduction in BMF Submission Processing centers was not taken.

**CORRECTIVE ACTION**

We will review, update and test the contingency plans to reflect the workload migration to the two BMF processing centers. This change will ensure returns are processed if one of the two centers experiences a disaster or significant downtime.

**Letter Report: Centralizing the Processing of Business Tax Returns –  
The Internal Revenue Service Considered Pertinent Risk Factors,  
but Needs to Update and Test Business Recovery Plans**

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**IMPLEMENTATION DATE**

October 2001

**RESPONSIBLE MANAGEMENT OFFICIAL**

Deputy Director, Customer Accounts Services

**CORRECTIVE ACTION MONITORING PLAN**

TBD